

Joint Economic and Fiscal Briefing House Finance and Ways & Means Committees

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New Hampshire Department of Revenue Administration



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Introduction

- The Department of Revenue Administration (DRA) administers 14 taxes for the State of New Hampshire, representing 79.0% (\$2.04 billion) of the audited revenue collected for the general and education trust funds in FY2018.
- The DRA has important insights into the performance of the State's most significant revenue sources, but lacks the capacity to perform more complex economic predictions.
- Presentations Outline:
 - Trend vs. Plan
 - Year-to-date revenues
 - Factors affecting taxes

Meals & Rentals (M&R) Tax

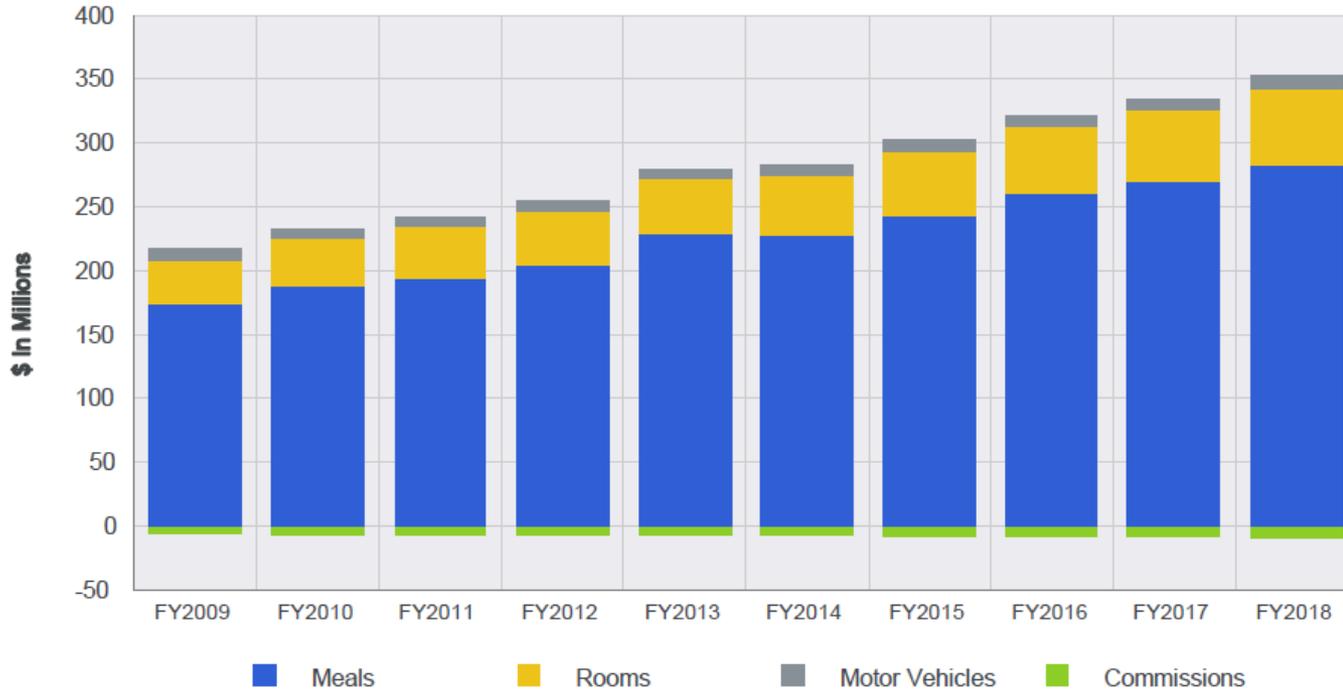
- The M&R Tax is a 9% tax levied on consumers for the purchase of taxable meals, accommodation rentals, and motor vehicle rentals. The Tax is collected by the operator and remitted to the DRA monthly.
- The School Building Aid debt service (SBA) is a monthly transfer from gross M&R Tax revenue. The transfer was \$14.6 million per year in FY2012, gradually decreasing to \$13.6 million in FY15, to \$12.7 million in FY2017. It was \$12.3 million in FY2018 and will be \$11.9 million in FY2019.
- Audited M&R Tax revenue continues to increase:
 - 7.1% increase in FY2016 over FY2015
 - 4.4% increase in FY2017 over FY2016
 - 5.4% increase in FY2018 over FY2017
 - FY2019 actual revenue for the 1st 6 months of the fiscal year is 1.0% above FY2019 plan and 5.7% above FY2018 unaudited revenue year to date.
- Factors that can affect M&R Tax:
 - Weather (sunny summers, colorful fall foliage, snowy winters)
 - Economy (when the economy is thriving M&R Tax revenue is usually up)
 - Unemployment (US = 3.7%; NH = 2.5% for November 2018 vs. US = 4.1%; NH = 2.6% for November 2017¹)
 - Travel /Tourism (overnight visitor trips were up 2.4% from 2016 to 2017, with total direct spending by travelers to NH up 2.8% from 2016 to 2017²)

¹Source: *Labor Force and Unemployment News Release*. Economic & Labor Market Information Bureau, NH Employment Security . Dec 2018

²Source: *2017: Four Seasons, New Hampshire Travel Barometer*. Report prepared for the NH Division of Travel and Tourism Development by Dean Runyan Associates.

M&R Tax Breakdown

Meals & Rentals (M&R) Tax Liability Reported by Activity Type
(Not Net of Refunds)

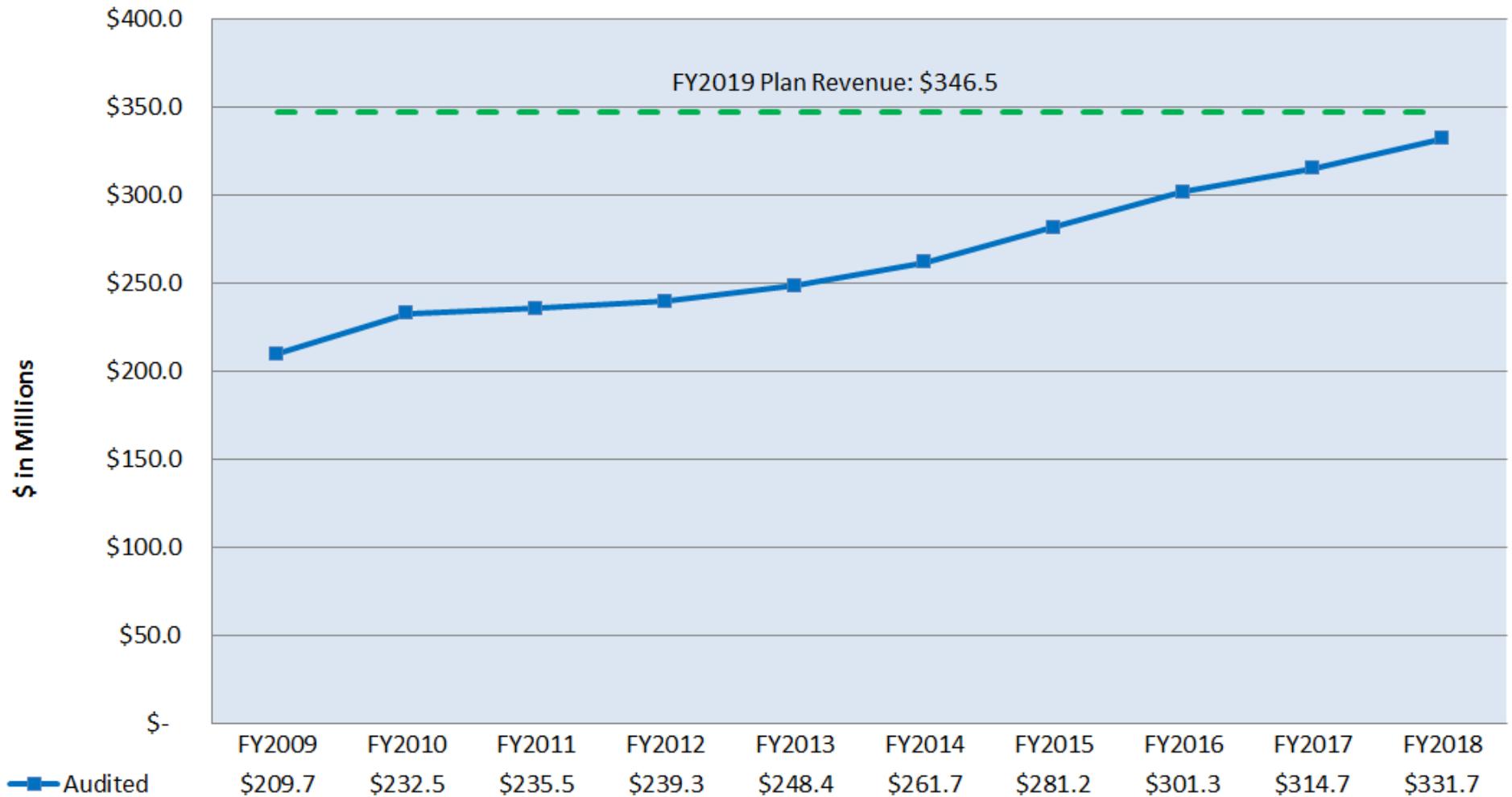


	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Tax Rate	8.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Meals	\$173.8	\$187.7	\$194.6	\$203.7	\$228.6	\$228.3	\$243.2	\$260.2	\$270.0	\$282.4
Rooms	\$34.8	\$37.2	\$39.6	\$41.9	\$43.4	\$45.5	\$49.8	\$52.8	\$55.4	\$59.7
Motor Vehicles	\$7.7	\$7.3	\$8.0	\$7.9	\$7.7	\$8.3	\$8.7	\$8.8	\$8.8	\$9.4
Commissions	-\$6.0	-\$6.4	-\$6.7	-\$7.0	-\$7.6	-\$7.7	-\$8.2	-\$8.8	-\$9.1	-\$9.5
Total	\$210.3	\$225.9	\$235.5	\$246.6	\$272.1	\$274.5	\$293.5	\$313.0	\$325.2	\$341.9

NOTE: Data shown represents tax reported and is not net of refunds or School Building Aid debt service.

M&R Tax Revenue 10-Year Trend

Audited Revenue



Real Estate Transfer Tax (RETT)

- The RETT is a tax on the transfer, sale or granting of real property at a rate of \$1.50 per \$100 of the price or consideration for the transfer (\$.75 is the obligation of the purchaser and \$.75 is the obligation of the seller).
- Audited RETT revenue has increased in recent years:
 - 14.4% increase in FY2016 over FY2015
 - 5.4% increase in FY2017 over FY2016
 - 5.3% increase in FY2018 over FY2017
 - FY2019 actual revenue for the 1st 6 months of the fiscal year is -2.1% below FY2019 plan and 8.2% above FY2018 unaudited revenue year to date.
- Factors that can affect RETT:
 - Economy (economic trends and cycles)
 - Interest Rates (4.58% NH 30-year fixed mortgage rate for December 31, 2018 vs. 4.16% NH 30-year fixed mortgage rate for December 1, 2017¹)
 - Property Values (\$182.8 billion was the total equalized value for NH on May 1, 2018² vs. \$173.4 billion on May 1, 2017³) and available inventory for sale

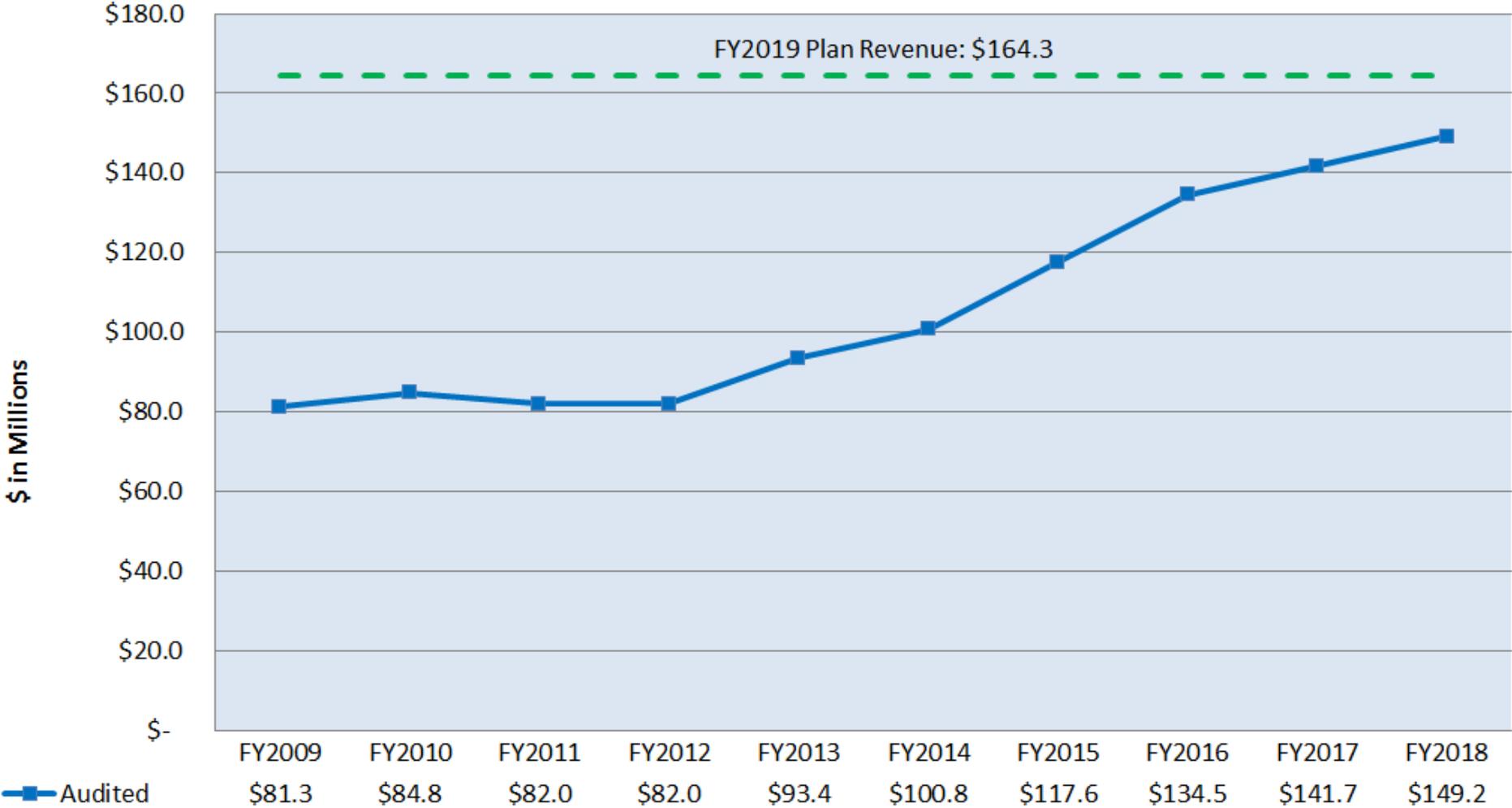
¹Source: Mortgage Rate Trends , Realtor.com, 1-3-19

²Source: Equalization Survey with Utilities and Railroad Summary, DRA 2018 Annual Report

³Source: Equalization Survey with Utilities and Railroad Summary, DRA 2017 Annual Report

RETT Revenue 10-Year Trend

Audited Revenue



Tobacco Tax

- The Tobacco Tax is levied on each package of cigarettes at a rate of \$1.78 per pack of 20 cigarettes and \$2.23 per pack of 25 cigarettes. The Tobacco Tax is also levied on all other tobacco products (OTP) at a rate of 65.03% of the wholesale sales price.
- The Tobacco Tax consists of stamp sales and sales of OTP.
- Audited Tobacco Tax revenue over the last three years:
 - 2.6% increase in FY2016 over FY2015
 - 3.7% decrease in FY2017 over FY2016
 - 3.2% decrease in FY2018 over FY2017FY2019 actual revenue for the 1st 6 months of the fiscal year is -5.6% below FY2019 plan and -7.2% below FY2018 unaudited revenue year to date.
- The composition of Tobacco Tax revenue is changing. OTP has grown and currently makes up 6% of Tobacco Tax revenue compared to FY2010 where it made up 3.4% of revenue.
- Factors that can affect Tobacco Tax:
 - Cross-border elasticity
 - Downward trend of stamp sales (-1% in FY2018, down -4% in FY2017)
 - E-cigarette consumption

Tobacco Stamp Rates

FY2009

A Stamp Rate = \$1.65

B Stamp Rate = \$1.33

FY2010 – FY2011

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78

FY2012 – FY2013

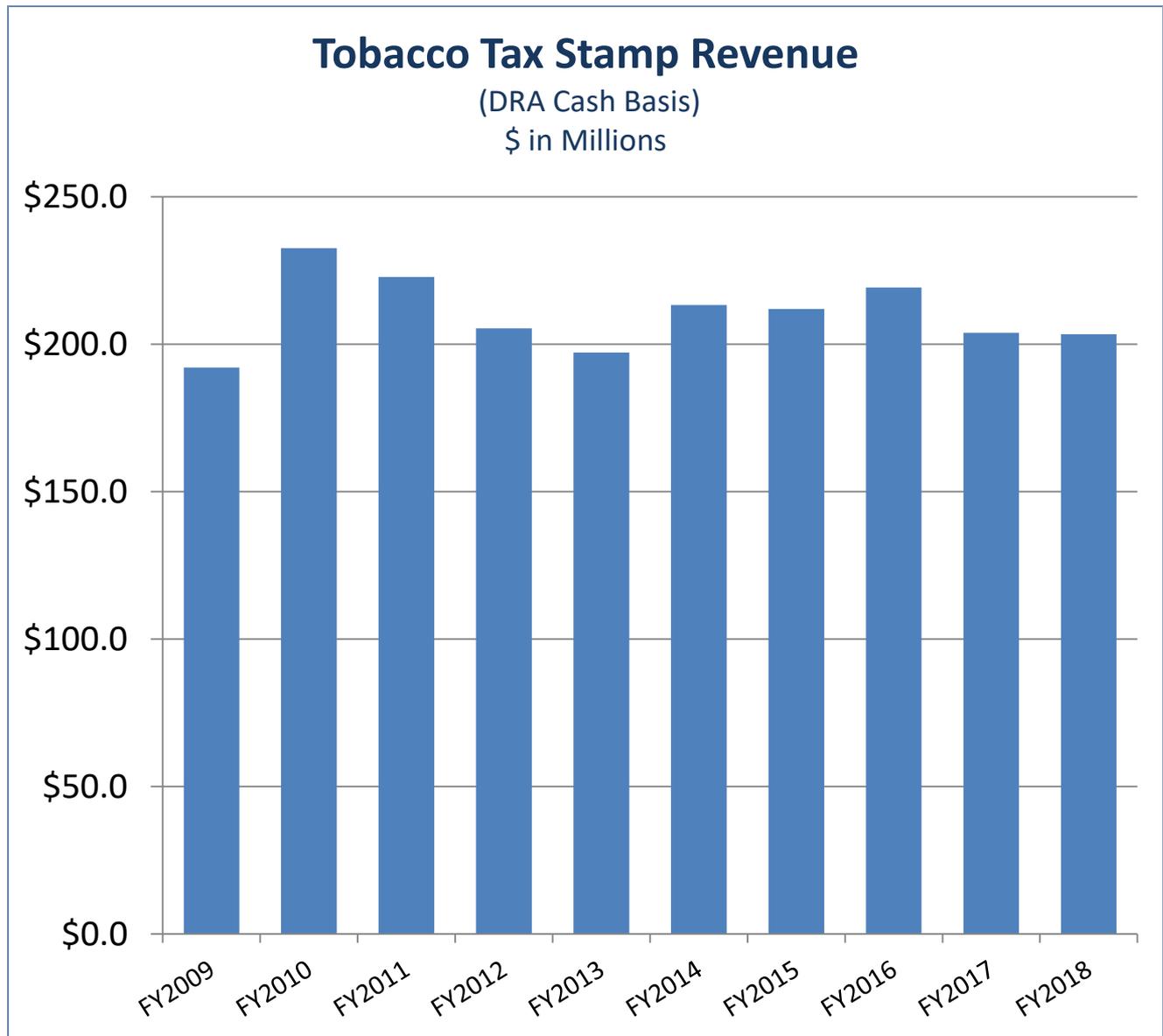
A Stamp Rate = \$2.10

B Stamp Rate = \$1.68

FY2014 – Current

A Stamp Rate = \$2.23

B Stamp Rate = \$1.78



Note: "A" Stamps are affixed to cigarette packs containing 25 cigarettes. "B" Stamps are affixed to cigarette packs containing 20 cigarettes.

OTP Tax Rates (Wholesale Price)

FY2009

19.00%

FY2010

48.59%

FY2011

65.03%

FY2012

48.00%

FY2013

48.00%

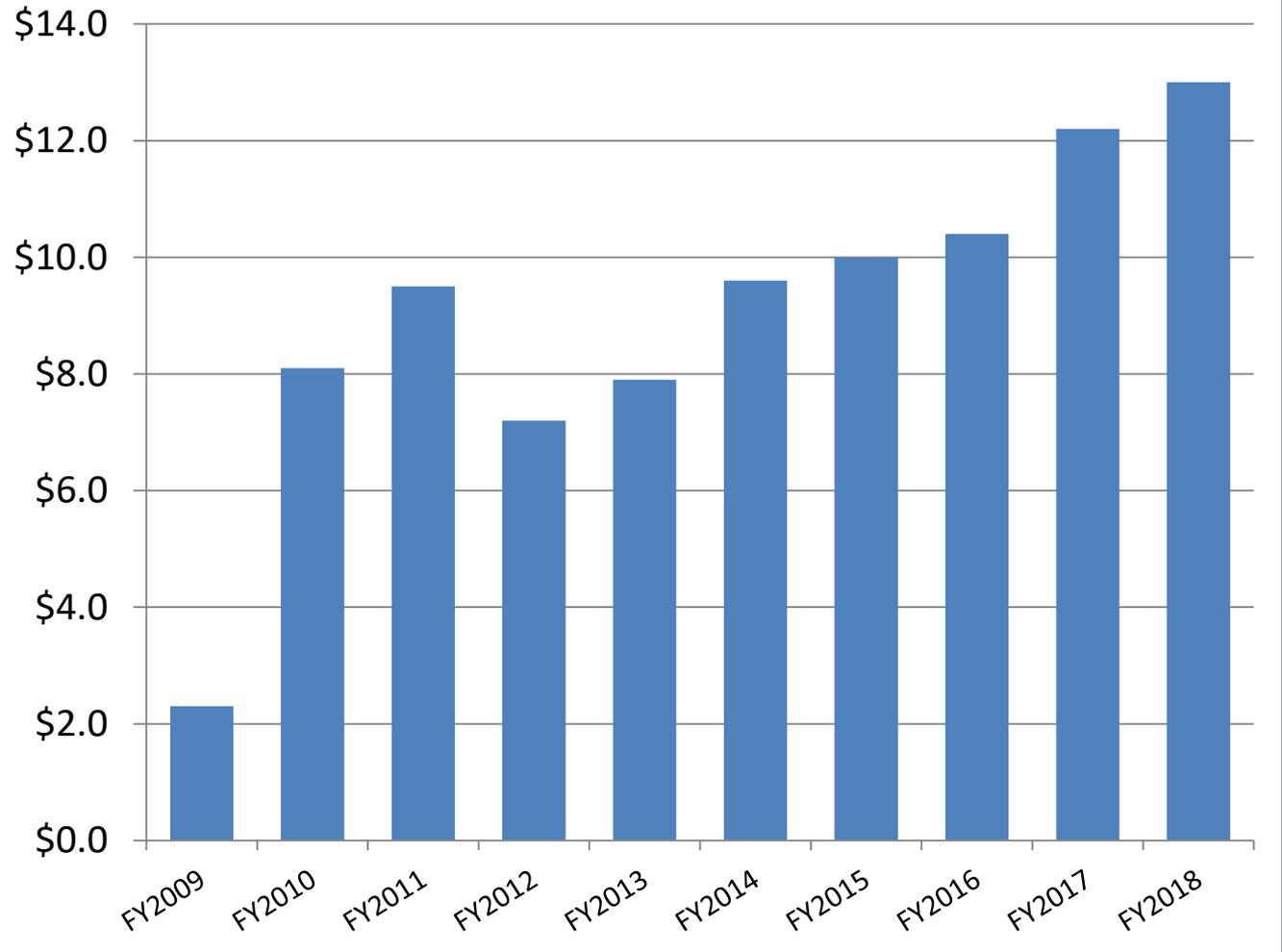
FY2014 – Current

65.03%

Other Tobacco Products (OTP) Tax Revenue

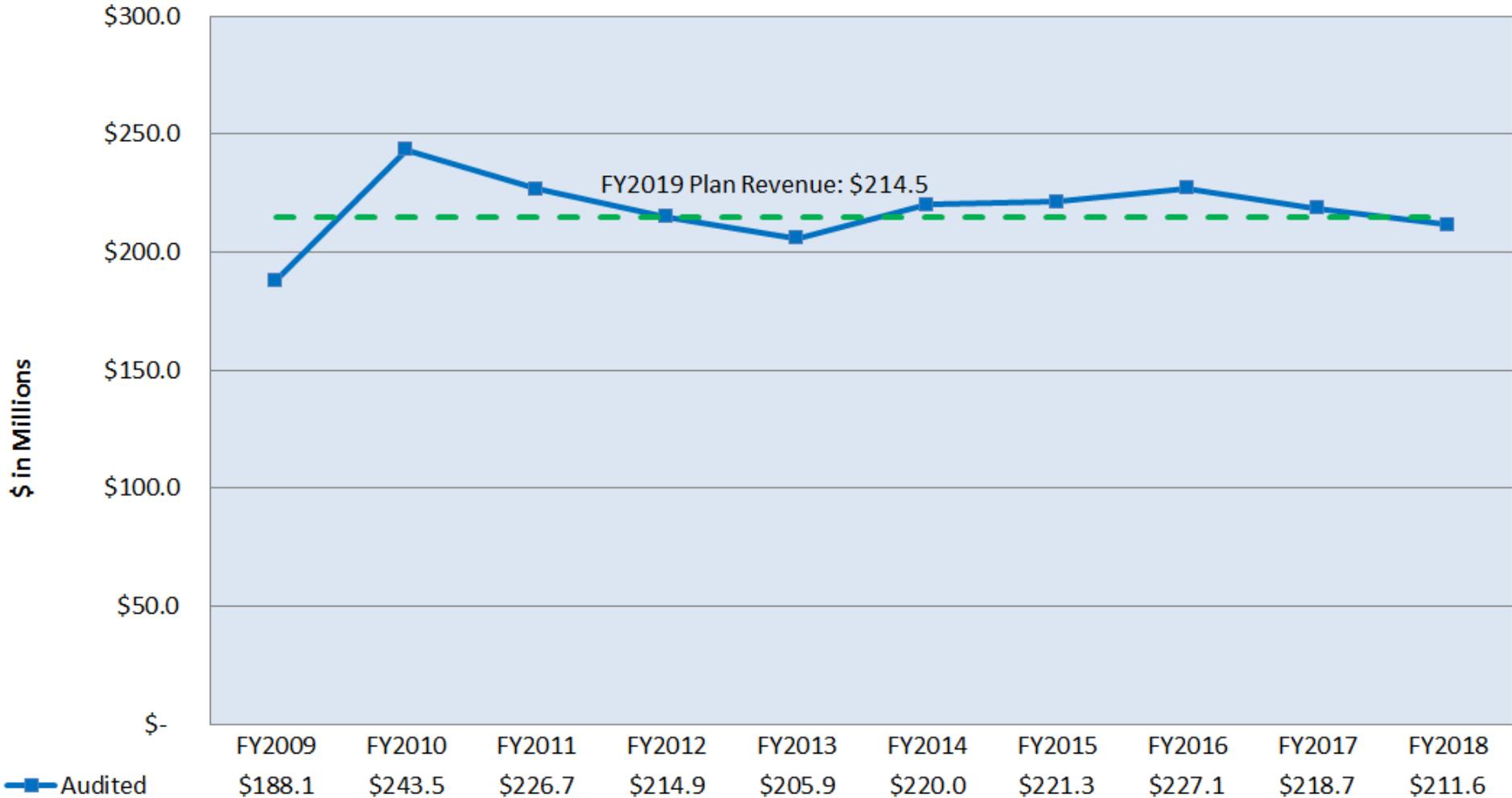
(DRA Cash Basis)

\$ in Millions



Tobacco Tax Revenue 10-Year Trend

Audited Revenue



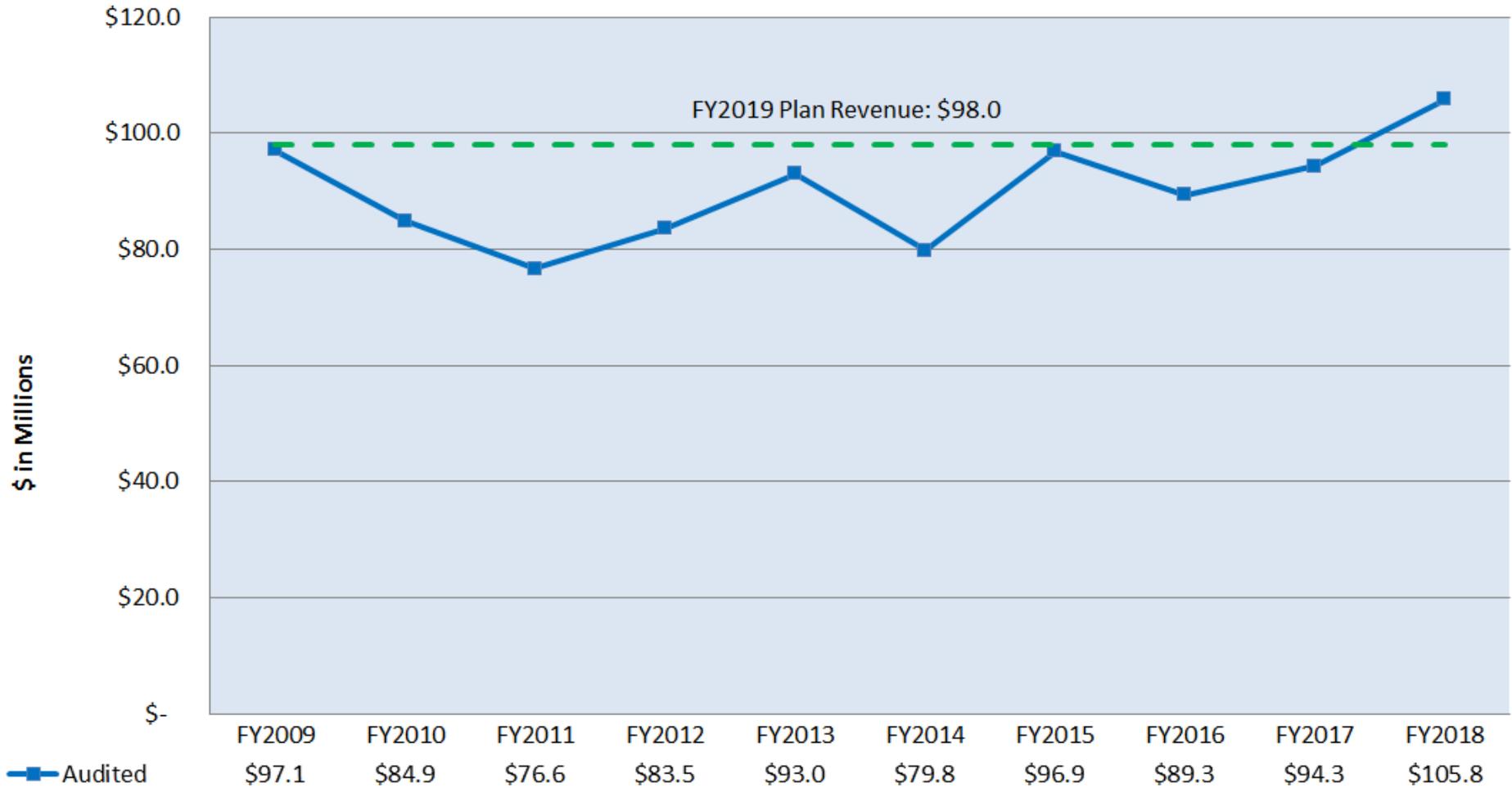
Note: See slides 9 & 10 for rate changes.

Interest & Dividends (I&D) Tax

- The I&D Tax is assessed at a rate of 5% on the interest and dividend income of individuals, partnerships, and fiduciaries.
- Audited I&D Tax revenue over the last three years:
 - 7.8% decrease in FY2016 over FY2015
 - 5.6% increase in FY2017 over FY2016
 - 12.2% increase in FY2018 over FY2017
 - FY2019 actual revenue for the 1st 6 months of the fiscal year is -3.5% below FY2019 plan and -24.4% below FY2018 unaudited revenue year to date.
- Factors that can affect I&D:
 - Rising interest rates
 - Economy
 - Federal tax reform

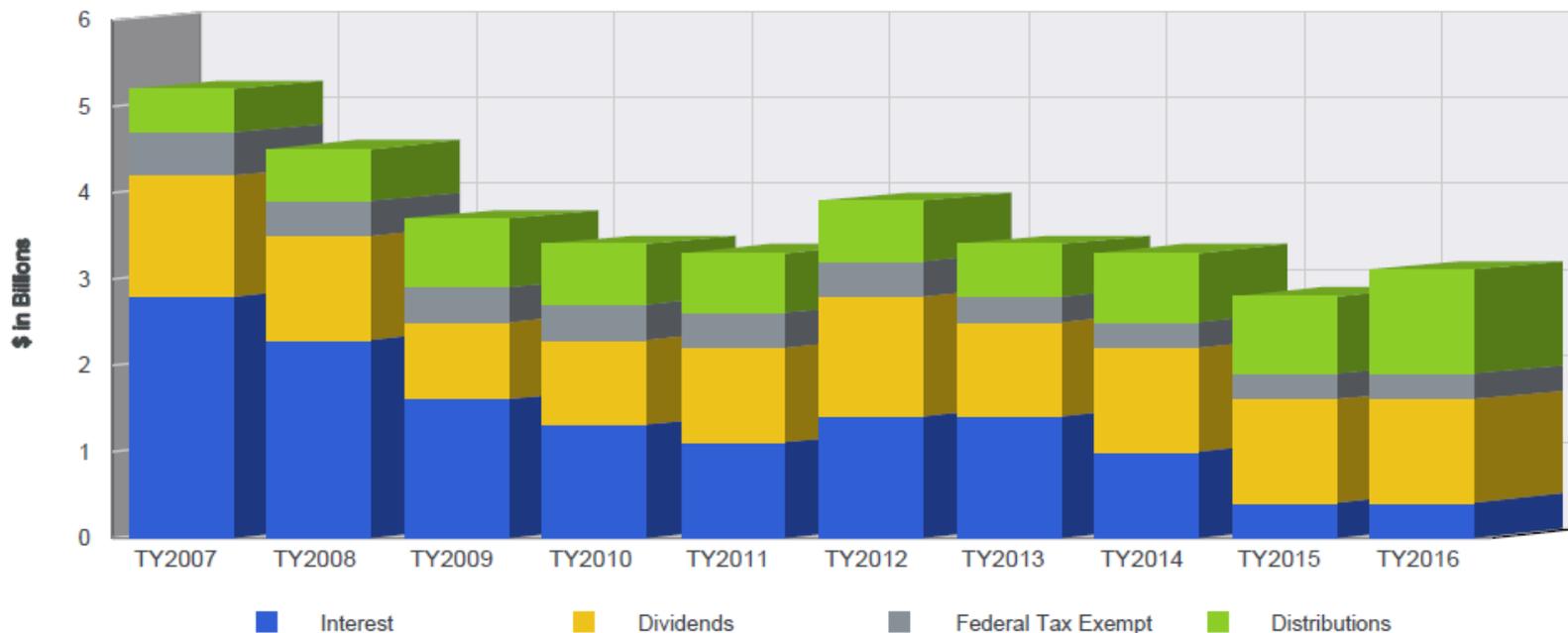
I&D Tax Revenue 10-Year Trend

Audited Revenue



Interest and Dividends Tax Components 10 Year Trend

(Gross I&D Income & Distributions as Reported by the Taxpayers)



	TY2007	TY2008	TY2009	TY2010	TY2011	TY2012	TY2013	TY2014	TY2015	TY2016
Distributions	\$0.5	\$0.6	\$0.8	\$0.7	\$0.7	\$0.7	\$0.6	\$0.8	\$0.9	\$1.2
Dividends	\$1.4	\$1.2	\$0.9	\$1.0	\$1.1	\$1.4	\$1.1	\$1.2	\$1.2	\$1.2
Federal Tax Exempt	\$0.5	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.3	\$0.3	\$0.3	\$0.3
Interest	\$2.8	\$2.3	\$1.6	\$1.3	\$1.1	\$1.4	\$1.4	\$1.0	\$0.4	\$0.4
Total	\$5.2	\$4.5	\$3.7	\$3.3	\$3.3	\$3.8	\$3.4	\$3.4	\$2.8	\$3.1

*Note: As reported on lines 1(a), 1(b), 1(c), and 2 on Form DP-10

*Note: Tax returns reporting a tax liability of zero were excluded from the data.

Utility Property Tax (UPT)

- The UPT is a tax imposed on the value of utility property at a rate of \$6.60 per \$1,000 of value, as determined by the DRA as of each April 1st.
- Audited UPT revenue over the last three years:
 - 5.6% increase in FY2016 over FY2015
 - 3.5% decrease in FY2017 over FY2016
 - 8.1% increase in FY2018 over FY2017
- Tax year 2018 assessments = \$41.8 million (Utility Property value of \$6.3 billion)
- Factors that can affect UPT:
 - Development of new renewable energy facilities
 - Valuation of utility property
 - Energy pricing, supply, and demand

Communications Services Tax (CST)

- The CST is a tax of 7% on all two-way communication services.
- FY2009 – FY2012 – CST revenue was between \$76.5 million and \$81.0 million.
- FY2013 – FY2016 – CST revenue was between \$52.4 million and \$59.3 million.
- FY2017 CST audited revenue was \$47.1 million.
- FY2018 CST audited revenue was \$43.4 million.
- Factors affecting CST:
 - 2012 exclusion of charges for internet access
 - Decrease in landlines
 - Modern pricing and purchasing trends for wireless communications

Business Taxes

- Business Taxes consists of the **Business Enterprise Tax (BET)** and the **Business Profits Tax (BPT)**. The BET is assessed on the sum of all compensation paid or accrued, interest paid or accrued, and dividends paid by the business. The BPT is assessed on income from the conduct of business activity within the state.
- The BPT conforms to the United States Internal Revenue Code of 1986 in effect on December 31, 2016, with adjustments, for taxable periods beginning on or after January 1, 2018.
- Factors that affect Business Taxes:
 - Economy
 - Federal tax reform (additional foreign dividends)
 - Mergers and acquisitions
 - Credits/Exemptions
 - Statutory changes
- Recent statutory changes
 - Business Tax rate reductions

<u>For Taxable Periods Ending</u>	<u>BPT Rate</u>	<u>BET Rate</u>
Prior Periods	8.5%	0.75%
on or after December 31, 2016	8.2%	0.72%
on or after December 31, 2017	8.2%	0.72%
on or after December 31, 2018	7.9%	0.675%
on or after December 31, 2019	7.7%	0.60%
on or after December 31, 2020	7.7%	0.60%
on or after December 31, 2021	7.5%	0.50%

- 100% exemption for qualified regenerative manufacturing companies through tax year 2027
- Increase of R&D Tax Credit from \$2 million to \$7 million effective July 1, 2017.
- §179 expense deductions (from \$25,000 to \$100,000 for property placed in service on or after January 1, 2017 and from \$100,000 to \$500,000 for property placed in service on or after January 1, 2018)

Business Tax Revenue FY2009 - FY2018

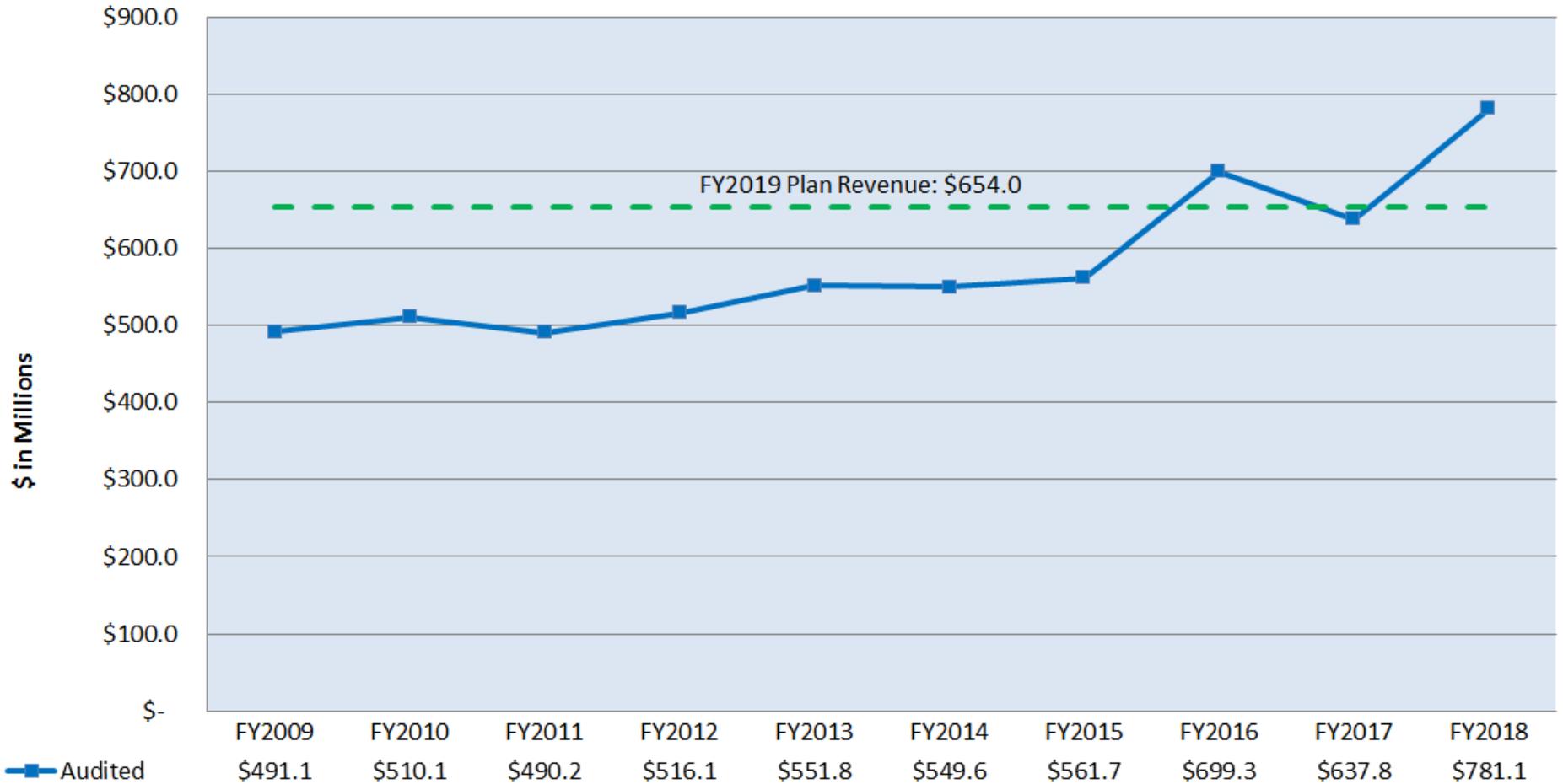
	Business Revenue	Change in \$	Change in %
	(Audited)		
FY2009	\$491,097,000	\$-	-
FY2010	\$510,124,000	\$19,027,000	3.9%
FY2011	\$490,205,000	(\$19,919,000)	-3.9%
FY2012	\$516,135,000	\$25,930,000	5.3%
FY2013	\$551,765,000	\$35,630,000	6.9%
FY2014	\$549,629,000	(\$2,136,000)	-0.4%
FY2015	\$561,663,000	\$12,034,000	2.2%
FY2016	\$699,291,000	\$137,628,000	24.5%
FY2017	\$637,799,000	(\$61,492,000)	-8.8%
FY2018	\$781,112,000	\$143,313,000	22.5%

Business Taxes – Anomalous Payments

- Anomalous, or one-time, tax payments appear in revenue every fiscal year. However, sometimes these payments are so large they can drastically increase revenue. These anomalies have been present in the last couple of years due to a variety of factors, from an amnesty program in FY2016 to federal tax reform and a large increase in mergers and acquisitions in FY2018 continuing into FY2019.
- The Department has analyzed FY2018 revenue in an attempt to determine growth versus anomalous payments, and has come up with a % range of anomalous payments. Without all returns having been filed for payments received in FY2018, the department believes the % range of anomalous payments for FY2018 is anywhere between 12% and 16% of all revenue received.

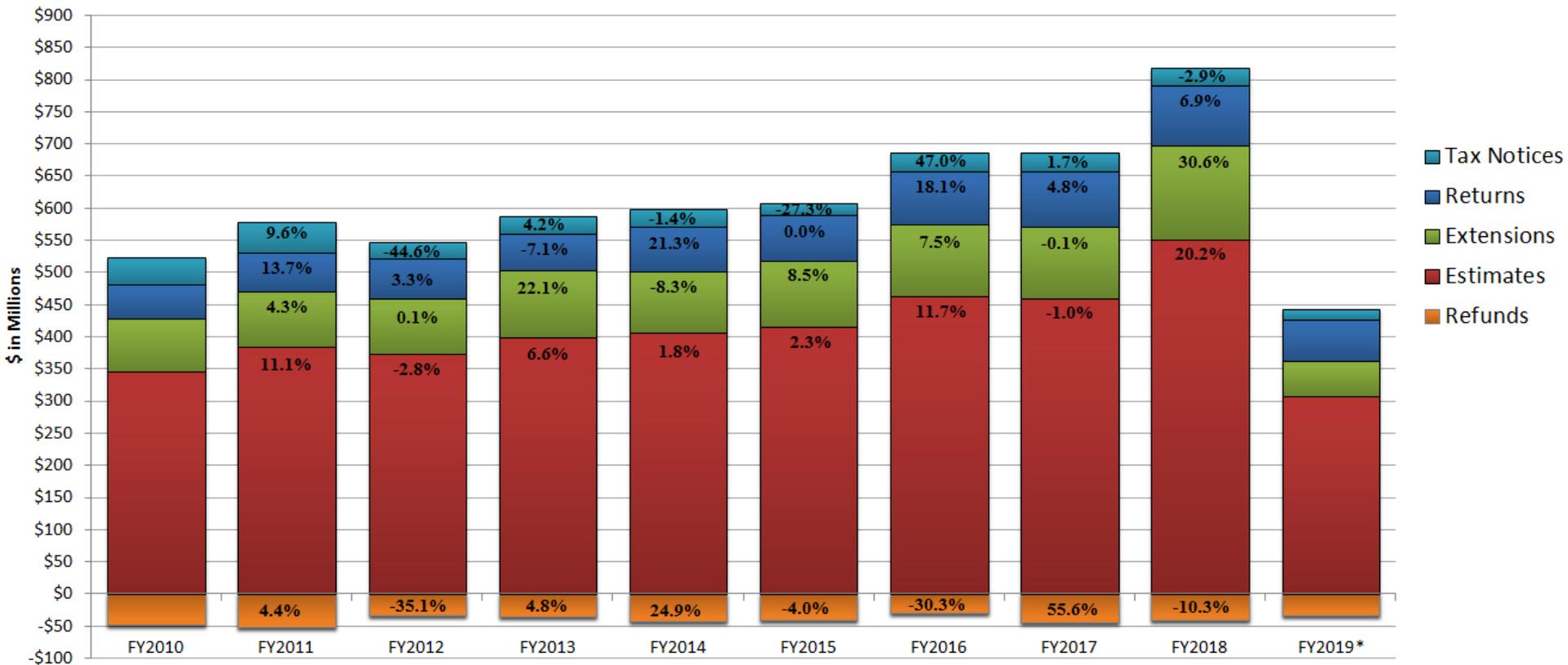
Business Tax Revenue 10-Year Trend

Audited Revenue



Historical Business Tax Returns, Estimates, Extensions, Tax Notices Payments, and Refunds

Year-Over-Year Change
(Cash Basis)



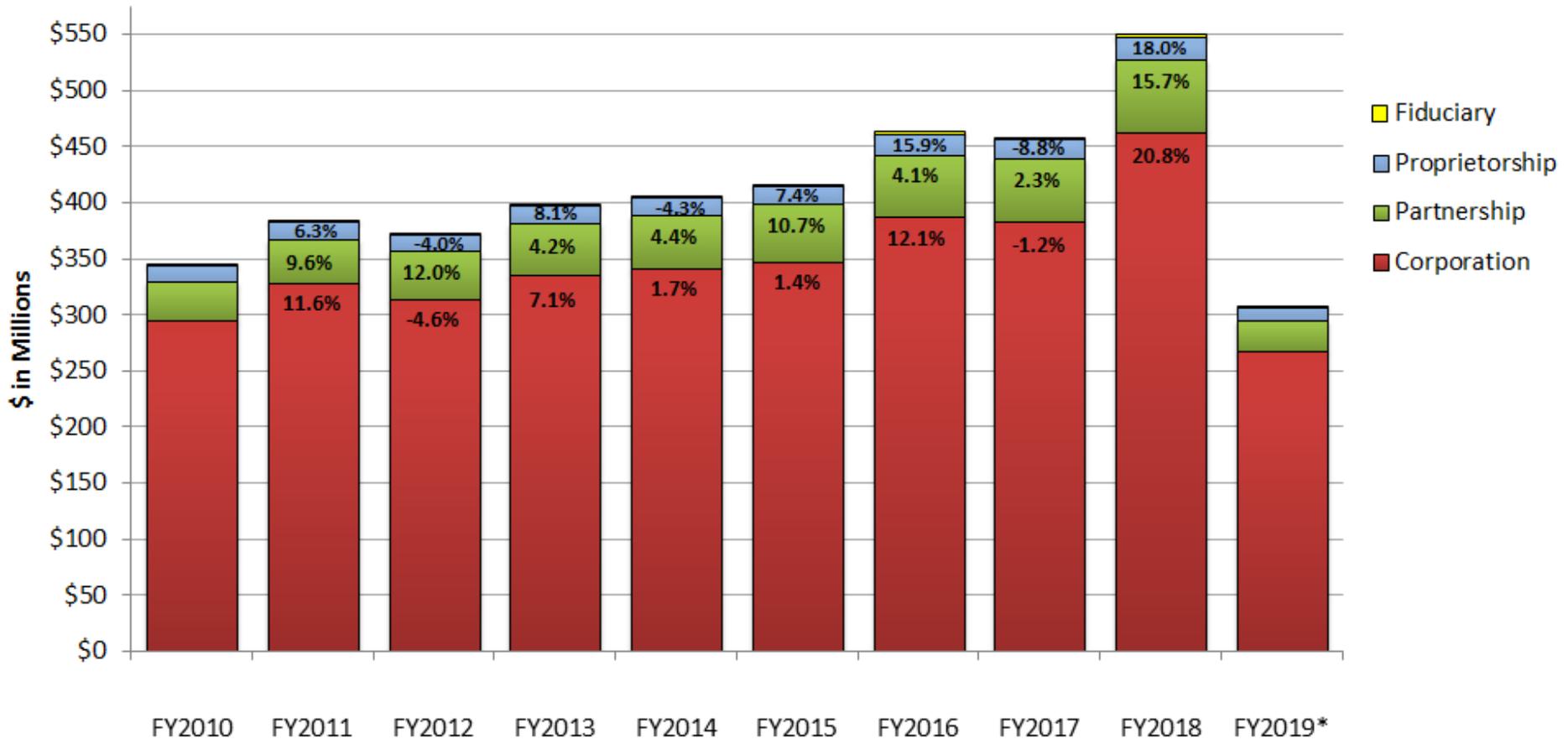
* FY2019 includes July 2018 – December 2018

Business Tax Estimate Payments Historical Analysis

Year-Over-Year Change
(Cash Basis)

The majority of Business Tax revenue is derived from estimates.

The following chart depicts a 10-year history of NH Business Tax estimate revenue by entity type.



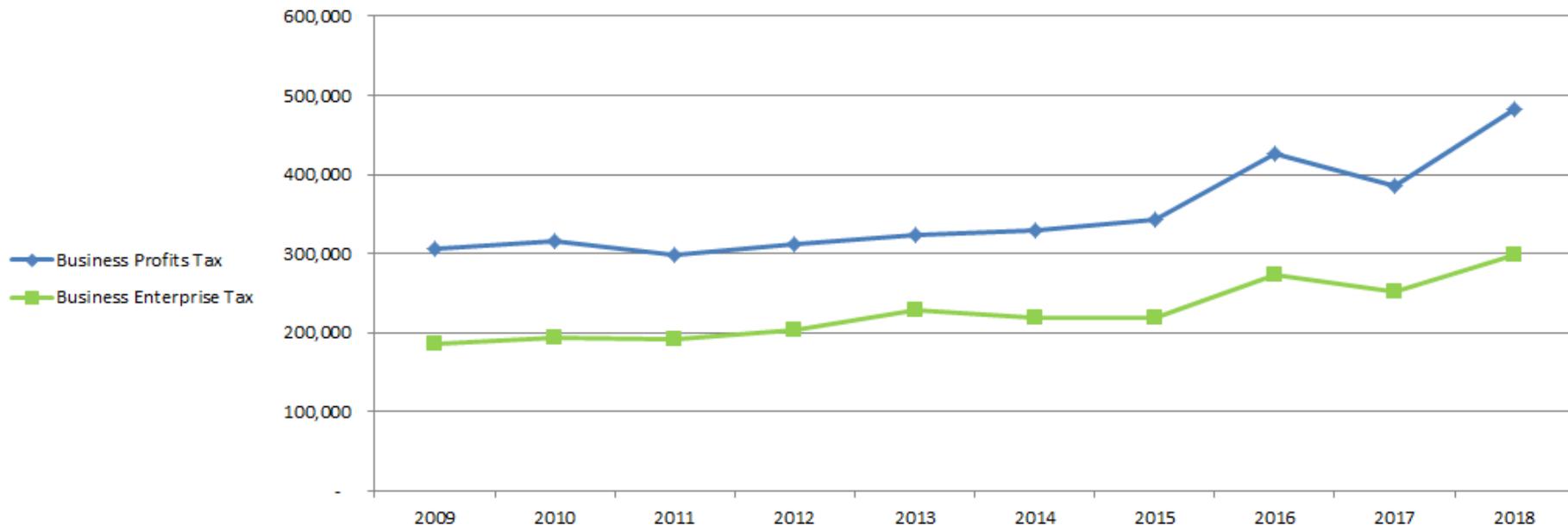
*FY2019 includes July 2018 – December 2018

Business Profits Tax vs. Business Enterprise Tax

STATE OF NEW HAMPSHIRE
 SCHEDULE OF UNRESTRICTED REVENUE - GAAP BASIS
 GENERAL FUND AND EDUCATION TRUST FUND
 FOR THE LAST TEN FISCAL YEARS
 (Expressed in Thousands)

Fiscal Year Ended June 30

GENERAL & EDUCATION TRUST FUNDS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Business Profits Tax	305,819	316,223	297,801	311,861	323,754	330,149	343,427	426,955	385,809	482,228
Business Enterprise Tax	185,278	193,901	192,404	204,274	228,011	219,480	218,236	272,336	251,990	298,884
	491,097	510,124	490,205	516,135	551,765	549,629	561,663	699,291	637,799	781,112



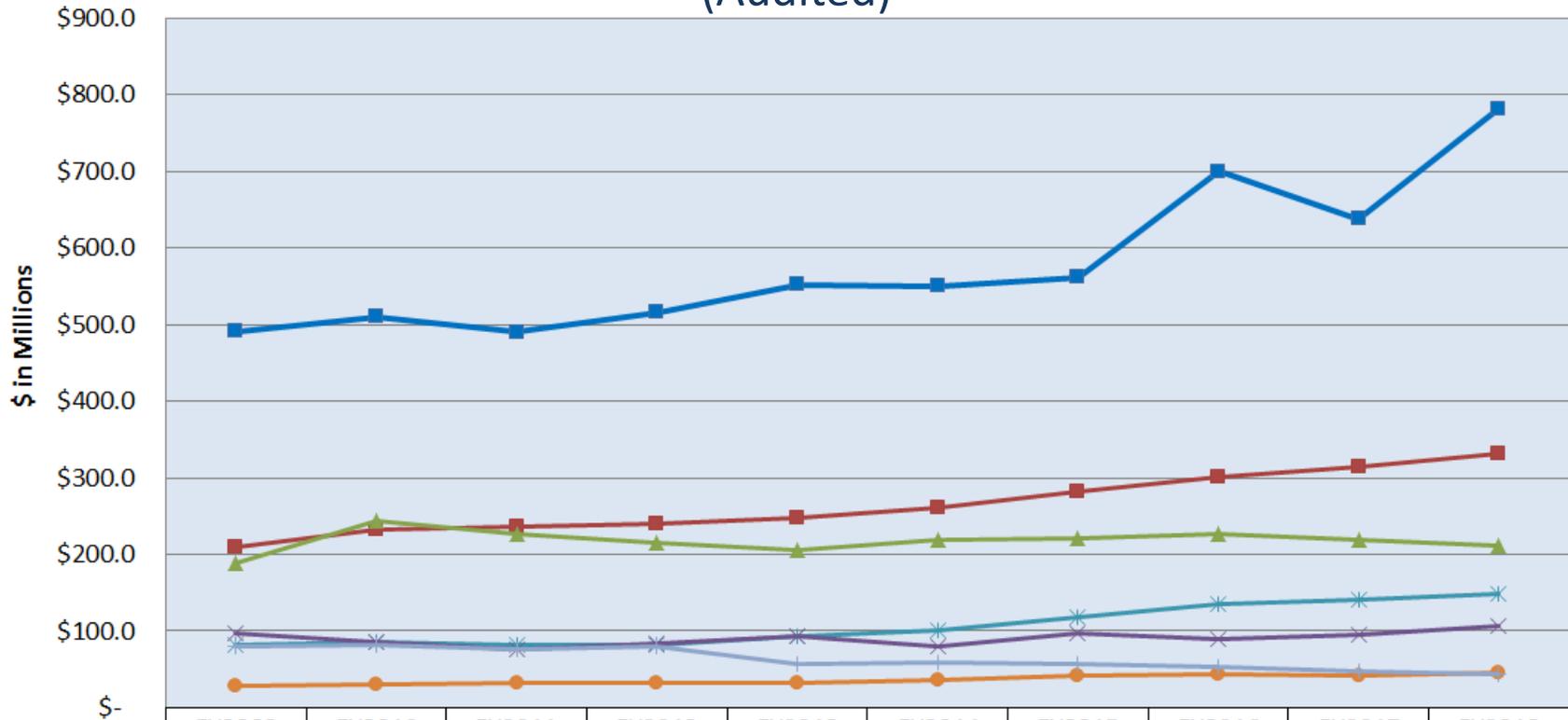
Percentage of Business Tax Revenue

Fiscal Year Ended June 30

GENERAL & EDUCATION TRUST FUNDS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Business Profits Tax	62.3%	62.0%	60.8%	60.4%	58.7%	60.1%	61.1%	61.1%	60.5%	61.7%
Business Enterprise Tax	37.7%	38.0%	39.2%	39.6%	41.3%	39.9%	38.9%	38.9%	39.5%	38.3%

Historical Revenue Trends

(Audited)



	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
BS	\$491.1	\$510.1	\$490.2	\$516.1	\$551.8	\$549.6	\$561.7	\$699.3	\$637.8	\$781.1
M&R	\$209.7	\$232.5	\$235.5	\$239.3	\$248.4	\$261.7	\$281.2	\$301.3	\$314.7	\$331.7
TOB	\$188.1	\$243.5	\$226.7	\$214.9	\$205.9	\$220.0	\$221.3	\$227.1	\$218.7	\$211.6
RETT	\$81.3	\$84.8	\$82.0	\$82.0	\$93.4	\$100.8	\$117.6	\$134.5	\$141.7	\$149.2
I&D	\$97.1	\$84.9	\$76.6	\$83.5	\$93.0	\$79.8	\$96.9	\$89.3	\$94.3	\$105.8
UPT	\$29.0	\$29.9	\$32.3	\$33.1	\$33.2	\$35.8	\$41.0	\$43.3	\$41.8	\$45.2
CST	\$80.2	\$81.0	\$76.5	\$79.3	\$57.4	\$59.3	\$57.3	\$52.4	\$47.1	\$43.4

FY2019 Tax Revenues

through December 2018

Taxes	1st 6 Months Actual	1st 6 Months Plan	Actual Revenue vs Plan Revenue	Last 6 months Plan as a % of Total Plan
Business	\$ 408,800,000	\$ 272,300,000	50.1%	58.4%
M&R	\$ 193,700,000	\$ 191,700,000	1.0%	44.7%
Tobacco	\$ 104,800,000	\$ 111,000,000	-5.6%	48.3%
RETT	\$ 89,500,000	\$ 91,400,000	-2.1%	44.4%
I&D	\$ 24,800,000	\$ 25,700,000	-3.5%	73.8%
UPT	\$ 18,000,000	\$ 20,700,000	-13.0%	52.3%
CST	\$ 21,100,000	\$ 20,400,000	3.4%	49.9%
ECT*	\$ 3,000,000	\$ 3,000,000	0.0%	0.0%
	\$ 863,700,000	\$736,200,000	17.3%	52.9%

* The Electricity Consumption Tax, under RSA Chapter 83-E, is repealed by the 2017 HB156:224 effective January 1, 2019.

Other Taxes DRA Administers

- Medicaid Enhancement Tax
- Nursing Facility Quality Assessment
- Railroad Tax
- Excavation Tax
- Timber Tax
- State Education Property Tax